

# **Decatur County Hospital**

Accountants' Report and Financial Statements

June 30, 2006 and 2005



# **Decatur County Hospital**

**June 30, 2006 and 2005**

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## **Independent Accountants' Report on Financial Statements and Supplementary Information**

Board of Trustees  
Decatur County Hospital  
Leon, Iowa

We have audited the accompanying balance sheet of Decatur County Hospital as of June 30, 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Decatur County Hospital as of and for the year ended June 30, 2005, were audited by other accountants whose report dated September 14, 2005 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2006 financial statements referred to above present fairly, in all material respects, the financial position of Decatur County Hospital as of June 30, 2006, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2006, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We and the other accountants have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information in 2006 and 2005, respectively. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The supplemental information as of and for the year ended June 30, 2005, was audited by other accountants whose report dated September 14, 2005, expressed an unqualified opinion on such information in relation to the basic financial statements as of and for the year ended June 30, 2005, taken as a whole.

/s/ **BKD, LLP**

Kansas City, Missouri  
September 22, 2006

# **Decatur County Hospital**

## **Management's Discussion and Analysis**

### **Years Ended June 30, 2006 and 2005**

#### Introduction

This management's discussion and analysis of the financial performance of Decatur County Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2006 and 2005. It should be read in conjunction with the accompanying financial statements of the Hospital.

#### Financial Highlights

- Cash, cash equivalents and short-term investments decreased between 2006 and 2005 by \$26,501 or 3% and increased between 2005 and 2004 by \$425,794 or 73%.
- The Hospital's net assets increased \$322,160 or 7% in 2006 over 2005 and decreased \$159,290 or 3% in 2005 over 2004.
- The Hospital reported operating losses in both 2006 (\$276,377) and 2005 (\$685,634). The operating loss in 2006 decreased by \$409,257 or 60% over the operating loss reported in 2005 and the loss in 2005 increased by \$306,077 or 81% over the operating loss reported in 2004.
- Net nonoperating revenues increased by \$72,193 or 14% in 2006 compared to 2005 and increased by \$7,374 or 19% in 2005 compared to 2004.

#### Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

#### ***The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets***

One of the most important questions asked about any Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

# Decatur County Hospital

## Management's Discussion and Analysis

### Years Ended June 30, 2006 and 2005

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

#### ***The Statement of Cash Flows***

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

#### **The Hospital's Net Assets**

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$322,160 or 7% in 2006 over 2005 as shown in Table 1.

**Table 1: Assets, Liabilities and Net Assets**

	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Assets</b>			
Patient accounts receivable, net	\$ 872,527	\$ 1,344,004	\$ 1,024,206
Other current assets	1,831,024	1,807,823	1,544,060
Noncurrent cash and deposits	2,131,064	1,727,966	1,274,355
Capital assets, net	<u>3,230,583</u>	<u>3,600,138</u>	<u>3,840,510</u>
Total assets	<u>\$ 8,065,198</u>	<u>\$ 8,479,931</u>	<u>\$ 7,683,131</u>
<b>Liabilities</b>			
Current liabilities	\$ 2,030,958	\$ 2,507,814	\$ 1,272,401
Long-term debt	<u>1,026,739</u>	<u>1,286,776</u>	<u>1,566,099</u>
Total liabilities	<u>3,057,697</u>	<u>3,794,590</u>	<u>2,838,500</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,938,294	2,033,056	2,033,697
Unrestricted	<u>3,069,207</u>	<u>2,652,285</u>	<u>2,810,934</u>
Total net assets	<u>5,007,501</u>	<u>4,685,341</u>	<u>4,844,631</u>
Total liabilities and net assets	<u>\$ 8,065,198</u>	<u>\$ 8,479,931</u>	<u>\$ 7,683,131</u>

# **Decatur County Hospital**

## **Management's Discussion and Analysis**

### **Years Ended June 30, 2006 and 2005**

A significant change in the Hospital's assets in 2006 is patient accounts receivable, which decreased \$471,477 or 35%.

- The Hospital's Home Health program was discontinued on June 30, 2005, but \$92,495 of Accounts Receivable from Home Health services remained to be collected. This amount was either collected or written off before the fiscal year ended June 30, 2006.
- Hospital net patient service revenue in 2006 increased 7% over the prior year, excluding Home Health. There was no significant difference in payer mix between the two years. During 2006, the Hospital was able to improve billing and collections processes in every financial class except self pay. Based on a comparison of the last three month's revenue for each year, which was within 3%, we estimate that a reduction of seven days in Accounts Receivable reduced total Accounts Receivable by approximately \$272,000.
- Contractual allowances for Medicare and Medicaid increased during 2006 by \$134,315. This is due to overall decreases in Medicare and Medicaid rates from the previous year.
- The allowance for uncollectible accounts decreased \$9,955 during 2006 due to a slight improvement in the aging of self-pay Accounts Receivable. Although the self-pay Accounts Receivable balance was higher than the previous year, the majority of it was in lower aged categories.
- Internally designated assets increased by \$403,098.
- The Hospital accumulated over \$400,000 additional cash due to a decrease in Accounts Receivable as well as a positive bottom line. This additional cash was added to internally designated assets.
- Net capital assets decreased in 2006 by \$369,555, primarily due to depreciation on assets exceeding additions to building improvements and equipment.

In 2005, significant changes in the Hospital's assets were due to:

- An increase of \$879,405 in cash and noncurrent cash and deposits.
- An increase of \$319,798 in patient accounts receivable.
- A decrease of \$263,763 in other current assets. In 2004, there was a receivable from third parties of \$185,071 and in 2005 there was a liability to third parties.
- A decrease of \$240,372 for capital assets, net, due to depreciation expense exceeding additions for capital improvements.

# Decatur County Hospital

## Management's Discussion and Analysis

### Years Ended June 30, 2006 and 2005

#### Operating Results and Changes in the Hospital's Net Assets

In 2006, the Hospital's net assets increased by \$322,160 or 7% as shown in Table 2. This increase is made up of several different components.

- Increased cash reserves resulted in an increase of \$49,000 in interest income.
- Maturing long-term debt resulted in a decrease of \$25,300 in interest expense.
- The operating loss for 2006 decreased by \$409,257 or 60% as compared to 2005. Please see below the explanation for this.

**Table 2: Operating Results and Changes in Net Assets**

	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 6,929,718	\$ 7,266,731	\$ 7,089,086
Other operating revenues	<u>377,630</u>	<u>320,207</u>	<u>243,252</u>
Total operating revenues	<u>7,307,348</u>	<u>7,586,938</u>	<u>7,332,338</u>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	3,642,951	4,232,566	3,801,544
Purchased services and professional fees	1,515,379	1,486,254	1,483,010
Depreciation and amortization	431,688	461,375	420,596
Other operating expenses	<u>1,993,707</u>	<u>2,092,377</u>	<u>2,006,745</u>
Total operating expenses	<u>7,583,725</u>	<u>8,272,572</u>	<u>7,711,895</u>
<b>Operating Loss</b>	<u>(276,377)</u>	<u>(685,634)</u>	<u>(379,557)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Property taxes	583,575	586,062	583,008
Interest income	77,995	28,944	21,173
Interest expense	(71,206)	(96,505)	(100,718)
Noncapital grants and gifts	<u>8,173</u>	<u>7,843</u>	<u>15,507</u>
Total nonoperating revenues	<u>598,537</u>	<u>526,344</u>	<u>518,970</u>
<b>Increase (Decrease) in Net Assets</b>	<u>\$ 322,160</u>	<u>\$ (159,290)</u>	<u>\$ 139,413</u>



# **Decatur County Hospital**

## **Management's Discussion and Analysis**

### **Years Ended June 30, 2006 and 2005**

#### ***Operating Loss***

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2006, 2005 and 2004, the Hospital has reported an operating loss. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Decatur County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

The operating loss for 2006 decreased by \$409,257 or 60% as compared to 2005. The primary components of the decreased operating loss are:

- Medicare audits in 2005 for the years ended June 30, 2004 and 2003 resulted in additional contractual adjustments of \$274,031 that the Hospital did not have in 2006.
- The Hospital eliminated the Leon Family Clinic as of March 31, 2005 and the Public Health/Home Health and Focus as of June 30, 2005. This resulted in the Hospital being able to reduce full time equivalents (FTEs) from 108 to 105 to 83. The reduction of FTEs resulted in a corresponding decrease of \$589,615 in salaries and wage benefits.
- The three services eliminated at the end of 2005 were reducing the Hospital's reimbursement under the critical access hospital program.

The operating loss for 2005 increased by \$306,077 or 81% as compared to 2004. The primary components of the increased operating loss are:

- In 2004, the Hospital employed one physician for four months, for a cost of approximately \$40,000 for salaries and benefits. In 2005, the Hospital employed one physician for two months and two physicians for six months, for a cost of \$229,238, an increase of \$189,238.
- Malpractice Insurance for the employed physicians cost approximately \$30,000 in 2005 versus \$300 in 2004. The primary reason was due to one doctor's tail coverage from a previous practice and the fact that the doctor has an obstetrics practice.
- The Hospital increased wages as a result of wage rebasing that was effective at July 1, 2005, in addition to increased employee benefits cost of \$241,784.

#### ***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital, interest income and interest expense, and grants, all of which remained relatively constant in 2006 as compared to 2005, except for the increase in interest income of \$49,051 and a decrease in interest expense of \$25,299.

# **Decatur County Hospital**

## **Management's Discussion and Analysis**

### **Years Ended June 30, 2006 and 2005**

#### ***The Hospital's Cash Flows***

Changes in the Hospital's cash flows are consistent with changes in the operating loss and nonoperating revenues and expenses in 2006 and 2005, discussed earlier, with one exception. The amounts due to third-party payers related to cost report settlements decreased \$414,025 in 2006 from 2005.

#### ***Capital Asset and Debt Administration***

##### **Capital Assets**

At the end of 2006 and 2005, the Hospital had \$3,230,583 and \$3,600,138, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2006 and 2005, the Hospital purchased new capital assets costing \$78,963 and \$222,918, respectively.

##### **Debt**

At June 30, 2006 and 2005, the Hospital had \$1,292,290 and \$1,567,082, respectively, in loans and capital lease obligations outstanding. The Hospital issued no new debt in 2006 or 2005.

#### ***Contacting the Hospital's Financial Management***

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling (641) 446-4871.

# Decatur County Hospital

## Balance Sheets

June 30, 2006 and 2005

### Assets

	2006	2005
<b>Current Assets</b>		
Cash and cash equivalents	\$ 379,443	\$ 1,005,944
Short-term investments	600,000	—
Patient accounts receivable, net of allowance; 2006 – \$200,735, 2005 – \$210,690	872,527	1,344,004
Property taxes receivable	561,070	557,518
Other receivables	23,818	15,017
Supplies	180,274	185,150
Prepaid expenses	<u>86,419</u>	<u>44,194</u>
Total current assets	2,703,551	3,151,827
<b>Noncurrent Cash and Deposits</b>		
Internally restricted		
Board designated	2,131,064	1,727,966
Land and land improvements	161,086	161,086
Buildings and leasehold improvements	4,230,657	4,214,586
Major moveable equipment	2,473,661	2,576,924
Construction in progress	<u>48,101</u>	<u>34,057</u>
	6,913,505	6,986,653
Less accumulated depreciation	<u>3,682,922</u>	<u>3,386,515</u>
	<u>3,230,583</u>	<u>3,600,138</u>
<b>Total Assets</b>	<u>\$ 8,065,198</u>	<u>\$ 8,479,931</u>

## Liabilities and Net Assets

	<u>2006</u>	<u>2005</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 265,551	\$ 280,306
Accounts payable	304,650	324,307
Accrued expenses payable to employees	200,198	232,169
Estimated amounts due to third-party payers	699,489	1,113,514
Deferred revenue for property taxes	<u>561,070</u>	<u>557,518</u>
Total current liabilities	2,030,958	2,507,814
<b>Long-term Debt</b>	<u>1,026,739</u>	<u>1,286,776</u>
Total liabilities	<u>3,057,697</u>	<u>3,794,590</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	1,938,294	2,033,056
Unrestricted	<u>3,069,207</u>	<u>2,652,285</u>
Total net assets	<u>5,007,501</u>	<u>4,685,341</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 8,065,198</u>	<u>\$ 8,479,931</u>

# Decatur County Hospital

## Statements of Revenues, Expenses and Changes in Net Assets

### Years Ended June 30, 2006 and 2005

	<b>2006</b>	<b>2005</b>
<b>Operating Revenues</b>		
Net patient service revenue before provision for uncollectible accounts	\$ 7,216,659	\$ 7,553,036
Provision for uncollectible accounts	<u>(286,941)</u>	<u>(286,845)</u>
Net patient service revenue	6,929,718	7,266,191
Other	<u>377,630</u>	<u>320,747</u>
Total operating revenues	<u>7,307,348</u>	<u>7,586,938</u>
<b>Operating Expenses</b>		
Salaries and wages	2,898,981	3,343,812
Employee benefits	743,970	888,754
Purchased services and professional fees	1,515,379	1,486,254
Insurance	63,227	97,251
Depreciation and amortization	431,688	461,375
Supplies and other expenses	<u>1,930,480</u>	<u>1,995,126</u>
Total operating expenses	<u>7,583,725</u>	<u>8,272,572</u>
<b>Operating Loss</b>	<u>(276,377)</u>	<u>(685,634)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Property taxes	583,575	586,062
Interest expense	(71,206)	(96,505)
Interest income	77,995	28,944
Noncapital grants and gifts	<u>8,173</u>	<u>7,843</u>
Total nonoperating revenues	<u>598,537</u>	<u>526,344</u>
<b>Increase (Decrease) in Net Assets</b>	322,160	(159,290)
<b>Net Assets, Beginning of Year</b>	<u>4,685,341</u>	<u>4,844,631</u>
<b>Net Assets, End of Year</b>	<u>\$ 5,007,501</u>	<u>\$ 4,685,341</u>

**Decatur County Hospital**  
**Statements of Cash Flows**  
**Years Ended June 30, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
<b>Operating Activities</b>		
Cash received from patients and third parties	\$ 6,987,260	\$ 8,442,604
Cash paid to employees	(3,674,922)	(4,242,208)
Cash paid to suppliers	(3,566,093)	(3,509,722)
Other receipts and payments, net	<u>383,920</u>	<u>123,121</u>
Net cash provided by operating activities	<u>130,165</u>	<u>813,795</u>
<b>Non-Capital Financing Activities</b>		
Tax appropriations	583,575	586,062
Restricted and unrestricted contributions and grants	<u>8,173</u>	<u>7,843</u>
Net cash provided by non-capital financing activities	<u>591,748</u>	<u>593,905</u>
<b>Capital and Related Financing Activities</b>		
Purchase of property and equipment	(78,963)	(221,003)
Cash received from sale of property and equipment	1,650	—
Principal payments on long-term debt	(274,792)	(239,731)
Interest payments on long-term debt	<u>(71,206)</u>	<u>(96,505)</u>
Net cash used in capital and related financing activities	<u>(423,311)</u>	<u>(557,239)</u>
<b>Investing Activities</b>		
Change in noncurrent cash and investments	(950,243)	324,230
Purchases of investments	(600,000)	—
Investment income	<u>77,995</u>	<u>28,944</u>
Net cash provided by (used in) investing activities	<u>(1,472,248)</u>	<u>353,174</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(1,173,646)	1,203,635
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>1,783,785</u>	<u>580,150</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 610,139</u>	<u>\$ 1,783,785</u>

**Decatur County Hospital**  
**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
<b>Reconciliation of Net Operating Revenues (Expenses) to</b>		
<b>Net Cash Provided By (Used In) Operating Activities</b>		
Loss from operations	\$ (276,377)	\$ (685,634)
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	431,688	461,375
Loss on sale of assets	15,180	—
Decrease (increase) in		
Patient receivables	471,477	(319,798)
Other receivables	(8,801)	(574)
Inventories	4,876	(17,055)
Prepaid expenses	(42,225)	(3,474)
Increase (decrease) in		
Accounts payable	(19,657)	90,012
Accrued salaries, wages, benefits and other	(31,971)	(9,642)
Third-party payer settlements payable	<u>(414,025)</u>	<u>1,298,585</u>
Net cash provided by operating activities	\$ <u>130,165</u>	\$ <u>813,795</u>

# **Decatur County Hospital**

## **Notes to Financial Statements**

### **June 30, 2006 and 2005**

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### ***Nature of Operations***

Decatur County Hospital (Hospital) is a county public hospital organized under Chapter 347 of the Code of Iowa. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Decatur County area.

##### ***Basis of Accounting and Presentation***

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

##### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### ***Cash Equivalents***

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2006 and 2005, cash equivalents consisted primarily of money market accounts.



# **Decatur County Hospital**

## **Notes to Financial Statements**

### **June 30, 2006 and 2005**

#### ***Property Taxes***

The Hospital received approximately 8% of its financial support from property tax revenues in the years ended June 30, 2006 and 2005, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

#### ***Risk Management***

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, vision, short-term disability and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

#### ***Patient Accounts Receivable***

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

#### ***Supplies***

Supply inventories are stated at cost, determined using the first-in, first-out method.

#### ***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements

10 to 25 years

# **Decatur County Hospital**

## **Notes to Financial Statements**

### **June 30, 2006 and 2005**

Buildings, improvements and fixed equipment	5 to 40 years
Major moveable equipment	3 to 20 years

#### ***Compensated Absences***

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

#### ***Net Assets***

Net assets of the Hospital are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt, or restricted expendable net assets.

#### ***Net Patient Service Revenue***

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

#### ***Charity Care***

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$8,278 and \$4,454 for 2006 and 2005, respectively.

# **Decatur County Hospital**

## **Notes to Financial Statements**

### **June 30, 2006 and 2005**

#### ***Income Taxes***

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

#### ***Reclassification***

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation. The reclassifications had no effect on the changes in financial position.

#### **Note 2: Net Patient Service Revenue**

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

- ◆ **Medicare.** Inpatient and outpatient services and defined capital cost related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Fiscal Intermediary. Estimated settlements have been reflected in the accompanying financial statements.
- ◆ **Medicaid.** Inpatient and outpatient services rendered to Medicaid Program beneficiaries were reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Program.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

#### **Note 3: Deposits, Investments and Interest Income**

##### ***Deposits***

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial risk requires compliance with the provisions of state law.

# Decatur County Hospital

## Notes to Financial Statements

### June 30, 2006 and 2005

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2006 and 2005. The Hospital's deposits in banks at June 30, 2006 and 2005 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

#### ***Investments***

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district. The Hospital's investment policy does not limit investments on interest rate risk and credit risk. The Hospital complies with State of Iowa statutes in regards to interest rate credit risk.

At June 30, 2006 and 2005 the Hospital's deposits and investments at fair market value are as follows:

	<u>2006</u>	<u>2005</u>
Carrying value		
Deposits	\$ 3,110,507	\$ 2,716,616
Investment in common stock	<u>—</u>	<u>17,294</u>
	<u>\$ 3,110,507</u>	<u>\$ 2,733,910</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 379,443	\$ 1,005,944
Short-term investments	600,000	—
Other noncurrent cash and deposits	<u>2,131,064</u>	<u>1,727,966</u>
	<u>\$ 3,110,507</u>	<u>\$ 2,733,910</u>

#### ***Interest Income***

Interest income for the years ended June 30, 2006 and 2005, amounted to \$77,995 and \$28,944, respectively.

#### **Note 4: Patient Accounts Receivable**

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2006 and 2005 consisted of:

**Decatur County Hospital**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Medicare	\$ 282,339	\$ 542,075
Medicaid	75,745	159,453
Patients and other third-party payers	<u>715,178</u>	<u>853,166</u>
	1,073,262	1,554,694
Less allowance for uncollectible accounts	<u>200,735</u>	<u>210,690</u>
	<u>\$ 872,527</u>	<u>\$ 1,344,004</u>

**Note 5: Capital Assets**

Capital assets activity for the years ended June 30, 2006 and 2005 follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
<b>2006</b>				
Land	\$ 44,272	\$ —	\$ —	\$ 44,272
Land improvements	116,814	—	—	116,814
Buildings and leasehold improvements	4,214,586	16,071	—	4,230,657
Major movable equipment	2,576,924	48,848	(152,111)	2,473,661
Construction in progress	<u>34,057</u>	<u>14,044</u>	<u>—</u>	<u>48,101</u>
	<u>6,986,653</u>	<u>78,963</u>	<u>(152,111)</u>	<u>6,913,505</u>
Less accumulated depreciation				
Land improvements	(44,811)	(7,494)	—	(52,305)
Buildings and leasehold improvements	(1,772,860)	(141,419)	—	(1,914,279)
Major movable equipment	<u>(1,568,844)</u>	<u>(282,775)</u>	<u>135,281</u>	<u>(1,716,338)</u>
	<u>(3,386,515)</u>	<u>(431,688)</u>	<u>135,281</u>	<u>(3,682,922)</u>
Capital assets, net	<u>\$ 3,600,138</u>	<u>\$ (352,725)</u>	<u>\$ (16,830)</u>	<u>\$ 3,230,583</u>

# Decatur County Hospital

## Notes to Financial Statements

### June 30, 2006 and 2005

	Beginning Balance	Additions	Disposals	Ending Balance
<b>2005</b>				
Land	\$ 44,272	\$ —	\$ —	\$ 44,272
Land improvements	116,814	—	—	116,814
Buildings and leasehold improvements	4,090,279	128,307	(4,000)	4,214,586
Major movable equipment	2,545,096	60,554	(28,726)	2,576,924
Construction in progress	<u>—</u>	<u>34,057</u>	<u>—</u>	<u>34,057</u>
	<u>6,796,461</u>	<u>222,918</u>	<u>(32,726)</u>	<u>6,986,653</u>
Less accumulated depreciation				
Land improvements	(37,265)	(7,546)	—	(44,811)
Buildings and leasehold improvements	(1,636,641)	(138,886)	2,667	(1,772,860)
Major movable equipment	<u>(1,282,045)</u>	<u>(314,943)</u>	<u>28,144</u>	<u>(1,568,844)</u>
	<u>(2,955,951)</u>	<u>(461,375)</u>	<u>30,811</u>	<u>(3,386,515)</u>
Capital assets, net	<u>\$ 3,840,510</u>	<u>\$ (238,457)</u>	<u>\$ (1,915)</u>	<u>\$ 3,600,138</u>

#### Note 6: Medical Malpractice Insurance

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made.

#### Note 7: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2006 and 2005:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
<b>2006</b>					
Long-term debt					
Great Western Bank (A)	\$ 722,476	\$ —	\$ (73,704)	\$ 648,772	\$ 53,512
American State Bank (B)	357,187	—	(42,234)	314,953	44,276
Capital lease obligations (C)	<u>487,419</u>	<u>—</u>	<u>(158,854)</u>	<u>328,565</u>	<u>167,763</u>
Total long-term debt	<u>\$ 1,567,082</u>	<u>\$ —</u>	<u>\$ (274,792)</u>	<u>\$ 1,292,290</u>	<u>\$ 265,551</u>

**Decatur County Hospital**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

	<b>Beginning Balance</b>	<b>Additions</b>	<b>2005 Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt					
Great Western Bank (A)	\$ 772,741	\$ —	\$ (50,265)	\$ 722,476	\$ 79,149
American State Bank (B)	397,166	—	(39,979)	357,187	42,235
Capital lease obligations (C)	<u>636,906</u>	<u>—</u>	<u>(149,487)</u>	<u>487,419</u>	<u>158,922</u>
Total long-term debt	<u>\$ 1,806,813</u>	<u>\$ —</u>	<u>\$ (239,731)</u>	<u>\$ 1,567,082</u>	<u>\$ 280,306</u>

- (A) The Great Western note payable requires monthly payments of principal and interest with interest at variable rate ranging from 5.59% to 7.95%. This note is collateralized by patient revenues. Principal and interest payments are due through August 2015.
- (B) American State Bank note payable requires monthly payments of principal and interest with interest at a rate of 5.5%. This note is collateralized by patient revenues. Principal and interest are due through July 2012.
- (C) At varying rates of imputed interest from 5.0% to 5.3% maturing through 2009 and collateralized by leased equipment. Equipment includes the following property under capital leases:

	<b>2006</b>	<b>2005</b>
Equipment	\$ 978,970	\$ 977,970
Less accumulated depreciation	<u>494,022</u>	<u>316,147</u>
	<u>\$ 484,948</u>	<u>\$ 661,823</u>

The debt service requirements as of June 30, 2006 are as follows for Great Western and American State Bank notes payable:

<b>Year Ending June 30, 2006</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2007	\$ 148,760	\$ 97,788	\$ 50,972
2008	149,154	101,708	47,446
2009	149,153	107,678	41,475
2010	149,153	114,000	35,153
2011	149,153	120,693	28,460
2012-2016	<u>475,176</u>	<u>421,858</u>	<u>53,318</u>
	<u>\$ 1,220,549</u>	<u>\$ 963,725</u>	<u>\$ 256,824</u>

# Decatur County Hospital

## Notes to Financial Statements

### June 30, 2006 and 2005

The following is a schedule by year of future minimum lease payments under capital lease obligations as of June 30, 2006:

Year Ending June 30, 2006	Principal	Interest
2007	\$ 167,763	\$ 14,412
2008	135,038	5,741
2009	<u>25,764</u>	<u>735</u>
	\$ <u>328,565</u>	\$ <u>20,888</u>

#### **Note 8: Designated Net Assets**

Of the \$3,069,207 and \$2,652,285 of the unrestricted net assets at June 30, 2006 and 2005, respectively, the Board of Trustees has designated \$2,131,064 and \$1,727,966 for capital acquisitions, respectively. Designated funds remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. Designated funds as found above in Note 3 are reflected in other noncurrent cash and investments.

#### **Note 9: Pension Plan**

##### ***Plan Description***

The Hospital contributes to the Iowa Public Employees' Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. The plan provides retirement and death benefits, which are established by State Statute, to plan members and beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

##### ***Funding Policy***

Plan members are required to contribute 3.7% of their annual covered salaries and the Hospital is required to contribute 5.75% of annual covered payroll for each of the years 2006 and 2005. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2006, 2005 and 2004 were \$157,642, \$186,700 and \$165,500, respectively, which equaled the required contributions for each year.



# Decatur County Hospital

## Notes to Financial Statements

### June 30, 2006 and 2005

#### Note 10: Related Party

The Hospital has a contractual arrangement with Mercy Medical Center – Des Moines (Mercy), under which Mercy provides management consultation and other services to the Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of the Hospital. The amount paid to Mercy for services during the years ended June 30, 2006 and 2005 were approximately \$280,300 and \$249,000, respectively. Accounts payable due to Mercy for the years ended June 30, 2006 and 2005 were \$52,029 and \$12,502, respectively.

#### Note 11: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on a cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget, for the year ended June 30, 2006:

	Actual	Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 583,575	\$ —	\$ 583,575	\$ 584,248
Other revenues/receipts	<u>7,393,518</u>	<u>57,452</u>	<u>7,450,970</u>	<u>8,186,995</u>
	7,977,093	57,452	8,034,545	8,771,243
Expenses/disbursements	<u>7,654,933</u>	<u>94,227</u>	<u>7,749,159</u>	<u>9,051,807</u>
	322,160	(36,775)	285,386	(280,564)
Balance, beginning of year	<u>4,685,341</u>	<u>81,626</u>	<u>4,766,966</u>	<u>4,766,966</u>
Balance, end of year	\$ <u>5,007,501</u>	\$ <u>44,851</u>	\$ <u>5,052,352</u>	\$ <u>4,486,402</u>

#### Note 12: Medicaid Review of FOCUS Program

The Hospital received notification from the Iowa Department of Human Services (DHS) that it is in violation of certain regulations in connection with its FOCUS Program and is subject to repayment for patient services previously billed. The Hospital is working with legal counsel to review this information and, as of the date of this report, a final agreement with Iowa DHS has not been reached. The Hospital has included a provision in the financial statements for an adverse outcome that may ultimately result from this matter. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

## **Supplementary Information**

# Decatur County Hospital

## Schedules of Patient Service Revenues

### Years Ended June 30, 2006 and 2005

	2006			2005		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
<b>Patient Care Services</b>						
Medical and surgical	\$ 552,143	\$ 552,143	\$ —	\$ 630,548	\$ 630,548	\$ —
Nursery	—	—	—	5,810	5,810	—
Skilled nursing	220,564	220,564	—	215,398	215,398	—
Respite	97,089	97,089	—	6,395	6,395	—
Observation	317,660	—	317,660	209,046	—	209,046
	<u>1,187,456</u>	<u>869,796</u>	<u>317,660</u>	<u>1,067,197</u>	<u>858,151</u>	<u>209,046</u>
<b>Other Professional Services</b>						
Operating room	1,190,878	101,376	1,089,502	1,034,511	140,305	894,206
Labor and delivery room	—	—	—	10,080	8,780	1,300
Laboratory	1,415,679	206,848	1,208,831	1,026,623	255,218	771,405
Central services and supplies	114,744	23,046	91,698	148,956	23,485	125,471
Emergency room	612,260	5,612	606,648	577,577	45,512	532,065
Ambulance	615,817	12,263	603,554	516,527	14,257	502,270
Electrocardiology	96,293	6,327	89,966	83,417	15,159	68,258
Radiology	1,702,248	119,533	1,582,715	820,813	86,085	734,728
CT scans	—	—	—	318,436	45,189	273,247
Vascular imaging	119,091	18,115	100,976	412,512	18,815	393,697
Cardiac rehabilitation	22,272	—	22,272	44,228	—	44,228
Mental health	—	—	—	445,821	4,914	440,907
Pharmacy	2,126,807	641,333	1,485,474	1,647,321	610,849	1,036,472
Anesthesiology	519,894	43,624	476,270	383,776	46,840	336,936
Respiratory therapy	533,304	307,982	225,322	531,972	326,859	205,113
Physical therapy	417,559	102,869	314,690	424,891	85,446	339,445
Occupational therapy	20,526	13,250	7,276	28,187	12,281	15,906
Speech therapy	33,997	22,171	11,826	7,540	5,822	1,718
Clinics	28,619	—	28,619	380,603	—	380,603
Home health services	—	—	—	765,143	—	765,143
Diabetic education	10,194	—	10,194	12,098	—	12,098
	<u>9,580,182</u>	<u>1,624,349</u>	<u>7,955,833</u>	<u>9,621,032</u>	<u>1,745,816</u>	<u>7,875,216</u>
<b>Gross Patient Service Revenue</b>	10,767,638	\$ <u>2,494,145</u>	\$ <u>8,273,493</u>	10,688,229	\$ <u>2,603,967</u>	\$ <u>8,084,262</u>
<b>Contractual Adjustments</b>	<u>3,550,979</u>			<u>3,135,193</u>		
<b>Net Patient Service Revenue before Provi-</b>						
<b>sion for Uncollectible Accounts</b>	7,216,659			7,553,036		
<b>Provision for Uncollectible Accounts</b>	<u>(286,941)</u>			<u>(286,845)</u>		
<b>Net Patient Service Revenue</b>	<u>\$ 6,929,718</u>			<u>\$ 7,266,191</u>		

**Decatur County Hospital**  
**Schedules of Other Revenues**  
**Years Ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Cafeteria	\$ 38,028	\$ 45,958
Laundry	1,039	1,019
Medical records	2,154	3,571
Medicaid administrative claiming reimbursement	—	9,161
Grant revenue	211,777	197,086
Miscellaneous	<u>124,632</u>	<u>63,412</u>
	\$ <u><u>377,630</u></u>	\$ <u><u>320,207</u></u>

# Decatur County Hospital

## Schedules of Operating Expenses

### Years Ended June 30, 2006 and 2005

	2006			2005		
	Total	Salaries	Other	Total	Salaries	Other
<b>Nursing Services</b>						
Nursing administration	\$ 60,939	\$ 54,861	\$ 6,078	\$ 46,013	\$ 43,755	\$ 2,258
Medical and surgical	797,488	740,825	56,663	675,715	634,446	41,269
Nursery	—	—	—	1,747	1,625	122
Labor and delivery	—	—	—	1,304	1,193	111
	<u>858,427</u>	<u>795,686</u>	<u>62,741</u>	<u>724,779</u>	<u>681,019</u>	<u>43,760</u>
<b>Other Professional Services</b>						
Operating room	241,325	166,982	74,343	252,791	167,326	85,465
Central services and supplies	60,324	—	60,324	42,582	—	42,582
Emergency room	204,276	180,476	23,800	177,587	156,340	21,247
Radiology	264,482	177,710	86,772	281,383	165,485	115,898
Ambulance	213,552	183,881	29,671	182,344	159,377	22,967
Ultrasound	35,002	—	35,002	32,954	—	32,954
Cardiac rehabilitation	15,844	14,150	1,694	21,401	19,576	1,825
Laboratory	446,257	138,841	307,416	365,548	132,959	232,589
Pharmacy	384,496	38,309	346,187	383,917	36,130	347,787
Social services	20,988	20,862	126	21,963	21,760	203
Home health	—	—	—	373,888	283,404	90,484
Anesthesiology	6,022	—	6,022	3,382	—	3,382
Respiratory therapy	107,037	79,954	27,083	125,851	81,416	44,435
Physical therapy	63,175	44,385	18,790	22,060	—	22,060
Occupational therapy	323	—	323	210	—	210
Mental health	139,365	79,398	59,967	308,179	239,313	68,866
Clinics	30,984	22,187	8,797	292,804	252,406	40,398
Medical records	118,469	94,787	23,682	114,075	87,328	26,747
Quality assurance	35,742	32,771	2,971	32,906	32,061	845
Infusion	448	448	—	—	—	—
	<u>2,388,111</u>	<u>1,275,141</u>	<u>1,112,970</u>	<u>3,035,825</u>	<u>1,834,881</u>	<u>1,200,944</u>
<b>General Services</b>						
Operation of plant	418,821	114,252	304,569	429,219	116,546	312,673
Laundry	27,469	14,787	12,682	29,027	20,414	8,613
Dietary	255,176	178,260	76,916	244,890	161,600	83,290
Housekeeping	106,320	86,148	20,172	119,063	99,284	19,779
	<u>807,786</u>	<u>393,447</u>	<u>414,339</u>	<u>822,199</u>	<u>397,844</u>	<u>424,355</u>
<b>Administrative Services</b>	<u>775,137</u>	<u>434,707</u>	<u>340,430</u>	<u>756,135</u>	<u>430,068</u>	<u>326,067</u>
<b>Employee Benefits</b>	<u>743,970</u>		<u>743,970</u>	<u>888,754</u>		<u>888,754</u>
<b>Purchased Services and Professional Fees</b>	<u>1,515,379</u>		<u>1,515,379</u>	<u>1,486,254</u>		<u>1,486,254</u>
<b>Depreciation and amortization</b>	<u>431,688</u>		<u>431,688</u>	<u>461,375</u>		<u>461,375</u>
<b>Insurance</b>	<u>63,227</u>		<u>63,227</u>	<u>97,251</u>		<u>97,251</u>
	<u>\$ 7,583,725</u>	<u>\$ 2,898,981</u>	<u>\$ 4,684,744</u>	<u>\$ 8,272,572</u>	<u>\$ 3,343,812</u>	<u>\$ 4,928,760</u>

**Decatur County Hospital**  
**Schedules of Patient Receivables and**  
**Allowance for Uncollectible Accounts**  
**Years Ended June 30, 2006 and 2005**

**Schedules of Patient Receivables**

	<b>Amounts</b>		<b>Percent to Total</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Days Since Discharge				
0 – 30	\$ 771,660	\$ 967,391	57%	57%
31 – 60	207,289	252,942	16	15
61 – 90	135,633	125,901	10	7
91 – 120	81,910	120,951	6	7
121 and over	<u>151,770</u>	<u>228,195</u>	<u>11</u>	<u>14</u>
	1,348,262	1,695,380	<u>100%</u>	<u>100%</u>
Less Contractual allowances	<u>275,000</u>	<u>140,686</u>		
	1,073,262	1,554,694		
Less Allowance for uncollectible accounts	<u>200,735</u>	<u>210,690</u>		
	<u>\$ 872,527</u>	<u>\$ 1,344,004</u>		

**Allowance for Uncollectible Accounts**

	<b>2006</b>	<b>2005</b>
Balance, beginning of year	\$ 210,689	\$ 230,524
Provision for year	286,941	286,845
Recoveries of accounts previously written off	<u>221,836</u>	<u>203,242</u>
	719,466	720,611
Less accounts written off	<u>518,731</u>	<u>509,921</u>
Balance, end of year	<u>\$ 200,735</u>	<u>\$ 210,690</u>

**Decatur County Hospital**  
**Schedules of Supplies and Prepaid Expenses**  
**Years Ended June 30, 2006 and 2005**

**Supplies**

	<u>2006</u>	<u>2005</u>
Medical/surgical	\$ 1,157	\$ 1,410
Emergency	1,690	895
Radiology	5,370	5,599
Laboratory	43,970	49,656
Ambulance	—	1,526
Plant operation and maintenance	23,709	21,369
Respiratory therapy	3,421	3,199
Dietary	4,974	6,496
Operating room	41,986	35,775
Pharmacy	51,005	56,564
Housekeeping	1,317	1,566
Laundry	<u>1,675</u>	<u>1,095</u>
	\$ <u><u>180,274</u></u>	\$ <u><u>185,150</u></u>

**Prepaid Expenses**

	<u>2006</u>	<u>2005</u>
Insurance	\$ 7,178	\$ 21,570
Maintenance and other	<u>79,241</u>	<u>22,624</u>
	\$ <u><u>86,419</u></u>	\$ <u><u>44,194</u></u>

# Decatur County Hospital

## Schedule of Officials

Year Ended June 30, 2006

Name	Title	Term Expires
<b>Board of Trustees</b>		
Guy Clark	Chairman	2010
Tom Thomas	Secretary	2006
Sherry Untiedt	Treasurer	2008
Bill Morain	Member	2006
Linda Chastain	Member	2006
Gwen Simpson	Member	2008
Leon Kessel	Member	2010
<b>Hospital Officials</b>		
Darrel Vondrak	Chief Executive Officer	
Paula Pickens	Chief Financial Officer	



**Decatur County Hospital**  
**Schedules of Financial and Statistical Data**  
**Years Ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>Patient Days</b>		
Medicare	1,404	1,555
Medicaid	68	106
Private and other	<u>1,002</u>	<u>318</u>
	<u>2,474</u>	<u>1,979</u>
<b>Medicare and Medicaid Percent</b>	<u>59.5%</u>	<u>83.9%</u>
<b>Percent of Occupancy</b>	<u>27%</u>	<u>22%</u>
<b>Discharges</b>		
Medicare	265	309
Medicaid	30	36
Private and other	<u>103</u>	<u>110</u>
	<u>398</u>	<u>455</u>
<b>Average Length of Stay in Days</b>	<u>3.09</u>	<u>3.11</u>

# Decatur County Hospital

## Schedule of Insurance Coverage

### Year Ended June 30, 2006

Chubb – Great Northern Insurance Company

Policy No.3584-64-01 DMO, expiring June 30, 2007

Blanket building and contents	\$ 10,683,612
Loss of income and extra expense	7,739,467
Personal property in-transit	50,000
Personal property at a temporary storage site	25,000
Nuclear hazard	5,000,000
Valuable papers	Included in blanket limit
Accounts receivable	1,700,000
EDP Media/Software	Included in blanket limit
Crime (employee dishonesty, deposit forgery and credit card forgery)	250,000

Chubb – Federal Insurance Company

Policy No. (06) 7354-2144, expiring July 1, 2007

Comprehensive automobile liability	
Liability	1,000,000
Hired and non-owned auto physical damage	25,000

Policy No. 6800-7676, expiring July 1, 2007

Directors' and officers' liability	
Executive liability	1,000,000
Entity coverage	1,000,000
Employment practices	1,000,000
Antitrust violations	1,000,000

Midwest Medical Insurance Company

Comprehensive hospital liability, expiring June 30, 2007

Hospital professional liability, Policy No. IHP000087	1,000,000/3,000,000
General liability, Policy No. IHP000087	1,000,000/3,000,000
Employee benefits, Policy No. IHP000087	1,000,000/3,000,000

Excess liability, expiring June 30, 2007

Excess medical liability, Policy No. IHP000087	3,000,000/3,000,000
Umbrella liability, Policy No. IHP000087	3,000,000/3,000,000



**Independent Accountants' Report on Internal Control  
Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of the Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Board of Trustees  
Decatur County Hospital  
Leon, Iowa

We have audited the financial statements of Decatur County Hospital as of and for the year ended June 30, 2006, and have issued our report thereon dated September 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertion of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and responses as items 06-1 and 06-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are not material weaknesses.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Compliance with Certain Provisions of Iowa Law***

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2006. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

### ***Official Depository Banks***

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2006.

### ***Certified Budget***

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2006 did not exceed amounts budgeted.

### ***Questionable Expenditures***

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds or questionable disbursements that may not meet the public purpose requirements as defined in an Attorney General's opinion dated April 25, 1979. However, the following was noted:

Criteria or Specific Requirement – Management is responsible for establishing policies regarding questionable expenditures.

Condition – The Board of Trustees has not adopted written policies surrounding questionable expenditures that establish expenses considered to meet the public purpose and the required documentation for those expenditures.

Context – Written policies are not in effect.

Effect – Employees may not be aware of potential questionable expenditures and the need to document their public purpose.

Cause – Written policies are not in place.

Recommendation – Management should establish policies to inform employees of what is considered expenses that meet the public purpose and require documentation of that purpose.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to enact policies to conform to this requirement.

### ***Travel Expense***

No expenditures of Hospital money for travel expenses of spouses of Hospital officials were noted. Mileage reimbursement was approved for employees not in excess of the IRS allowable limits.

### ***Business Transactions***

We noted no transactions between Hospital and Hospital officials or employees other than those exempted by law; i.e., bankers on the Board of Trustees.

### ***Trustee Minutes***

No transactions were found that we believe should have been approved in the trustee minutes, but were not.

### ***Deposits and Investments***

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.

### ***Unclaimed Property***

Prior to November 1, 2005, the Hospital was required to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted the following exception:

Criteria or Specific Requirement – Hospital management is responsible for filing a report of unclaimed property or a negative report if no unclaimed property is on hand.

Condition – A report noting no unclaimed property was not filed in 2005 for the year ended June 30, 2004.

Context – The Hospital had no unclaimed property, but no report was filed.

Effect – Requirements were not met under Chapter 556.11 of the Code of Iowa.

Cause – Necessary reporting was not made in the current fiscal year.

Recommendation – Management should ensure necessary reporting is completed each year.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to ensure all reporting is made in accordance with the Code of Iowa.

### ***Disbursements for Equipment and Supplies***

We did not note any disbursements for equipment or supplies that we believe were not in accordance with Chapter 347.13(3) of the Code of Iowa.

### ***Compensation of Hospital Administrator, Assistants and Employees***

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

### ***Internal Revenue Service Information Returns and Outside Services***

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

\* \* \* \* \*

This report is intended solely for the information and use of the governing body and management and the State of Iowa, and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri  
September 22, 2006

**Decatur County Hospital**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2006**

<b>Reference Number</b>	<b>Finding</b>
06-1	<p>Criteria or Specific Requirement—Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition—Two positions have incompatible duties in the purchases cycle.</p> <p>Context—The positions responsible for authorizing, processing and recording cash disbursements have duties that include access to assets, recording responsibilities and monitoring responsibilities.</p> <p>Effect—Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause—Duties in the purchases cycle are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>Recommendation—Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions—Management concurs with the findings and recommendations. Management will perform suggested evaluation and make any changes that are cost effective and operationally feasible within the next year.</p>

**Decatur County Hospital**  
**Schedule of Findings and Responses (Continued)**  
**Year Ended June 30, 2006**

<b>Reference Number</b>	<b>Finding</b>
06-2	<p>Criteria or Specific Requirement—Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition—Two individual positions have incompatible duties in the payroll accounting cycle.</p> <p>Context—The positions responsible for processing, recording and monitoring payroll information have duties that include access to assets, recording responsibilities and some monitoring responsibilities.</p> <p>Effect—Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause—Duties in the payroll accounting cycle are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>Recommendation—Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions—Management concurs with the findings and recommendations. Management will perform suggested evaluation and make any changes that are cost effective and operationally feasible within the next year.</p>





Board of Trustees  
Decatur County Hospital  
Leon, Iowa

As part of our audit of the financial statements of Decatur County Hospital for the year ended June 30, 2006, we studied and evaluated the Hospital's internal control structure. Because the study and evaluation was only part of the overall audit plan regarding the financial statements, it was not intended to be a complete review of all your accounting procedures and, therefore, would not necessarily disclose all reportable conditions or opportunities for improvement. We observed the following matters and offer these comments and suggestions.

### ***Estimate of Contractual Allowances***

At year end, we noted that the estimate for contractual allowances was using rates from the prior year instead of new rates for the current year, which were included in the Medicare correspondence the Hospital received during the year. In addition, we noted the Hospital's estimate for the allowance for uncollectible accounts, i.e., bad debts, did not include an estimate for accounts receivable that are less than 90 days outstanding.

We recommend the Hospital use the most current rates to estimate its contractual allowance and include in the estimate for uncollectible accounts an estimate for accounts that are less than 90 days old.

### ***Unlocated Checks***

We noted in the check registers subsequent to June 30, 2006, lapses in check numbers. As a result of our testing, we were unable to locate 10 out of 15 checks. We recommend the Hospital review check registers after each period accounts payable disbursements for lapses in check numbers and identify any missing check numbers and document why there is a lapse in the check number and maintain documentation of the missing check numbers.

### ***Journal Entries***

We noted no formal approval of journal entries. We recommend signing off on journal entries to indicate approval and attaching support for all journal entries.

### ***Required Vacations for Certain Employees***

Currently, there is no formal policy requiring vacations to be taken by certain employees whose positions affect some aspect of the accounting and finance functions at the Hospital. We recommend requiring mandatory one week vacations be taken by such personnel yearly such that another employee performs the finance or accounting related tasks the employee is responsible for. Required vacations of finance and accounting personnel provide an added measure that may help reduce or prevent fraudulent behavior.

## ***Corporate Compliance***

We understand through discussions with management and review of the corporate compliance questionnaire, that the Hospital is operating under a corporate compliance program. In addition, we understand that identifying, detecting and deterring fraud at the Hospital is part of the objective of the compliance program. During 2006, we understand the Hospital conducted compliance committee meetings and conducted new employee compliance training and education. These functions contribute to the effectiveness of a corporate compliance program and should be continued in future years.

Although the Hospital is performing some functions related to its corporate compliance program, we noted on the corporate compliance questionnaire that the Hospital marked that it has not conducted a risk assessment, the plan has not been reviewed for needed revisions, no reports have been made to the Board and an independent review of its corporate compliance program. We recommend the Hospital conduct a risk assessment, review the plan document for necessary revisions and consider conducting an independent review of its corporate compliance program as suggested by the OIG.

## ***Risk Assessment Audit Standards***

During the past year, the AICPA issued the Risk Assessment Suite of Standards (Statements of Auditing Standards Numbers 104 through 111). These Statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement in a financial statement audit and provide guidance on the design and performance of the audit procedures whose nature, timing and extent are designed to address the assessed risks. In addition, the Statements establish standards and guidance on planning and supervision, the nature of audit evidence and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion on the financial statements.

Overall, the primary objective of these Statements is to enhance the auditor's application of the audit risk model in conducting audits by specifying a more in-depth understanding of the organization and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the organization is doing to mitigate the risks. These Standards are effective for fiscal years beginning on or after December 15, 2006.

These Standards will have a significant impact on the Hospital's audit once they become effective, which will most likely be June 30, 2008.

\* \* \*

We appreciate the opportunity to present these comments and suggestions. This letter does not express an opinion on the Hospital's overall internal control structure; it does, however, include items that we believe merit your consideration. We can discuss these matters further at your convenience and provide any implementation assistance for changes or improvements you may require.

This letter is intended solely for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri  
September 22, 2006